

CIAOPR

RS 302-75

Approved For Release 2001/08/21 : CIA-RDP86T00608R000600170017-1
Jan 75

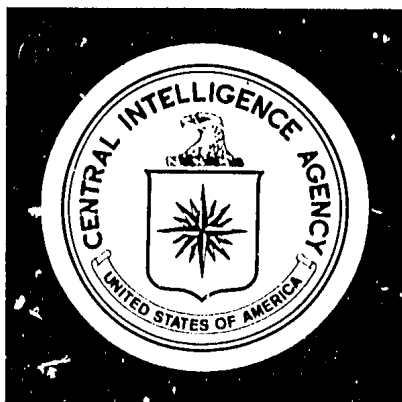
Peru's Stalled Revolution: Implications and Prospects

~~S/NED~~

1 of 1
OPR-302

~~Secret~~

No Foreign Dissem



Research Study

Peru's Stalled Revolution: Implications and Prospects

~~Secret~~

OPR-302

January 1975

NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions

Classified by 005139
Exempt from General Declassification Schedule
of E.O. 11652, exemption category:
S 5B(1), (2), and (3)
Automatically declassified on:
date impossible to determine

SECRET

No Foreign Dissem

CENTRAL INTELLIGENCE AGENCY

DIRECTORATE OF INTELLIGENCE

OFFICE OF POLITICAL RESEARCH

January 1975

PERU'S STALLED REVOLUTION:
IMPLICATIONS AND PROSPECTS

CONTENTS

	Page
PRECIS	iii
I. DEFINING PERU'S REVOLUTIONARY CRISIS	1
II. TRADITIONAL POLITICS AND THE SHIFT IN THE MILITARY'S IDEOLOGY	1
III. THE 1968 MILITARY COUP	2
IV. MILITARY'S PROGRAM FOR CHANGE	3
A. Implementing the Reforms	3
1. Agrarian Reform	3
2. Industrial Reform	4
3. Political Reform	5
B. New Role in Foreign Affairs	6
V. CURRENT PROBLEMS	6
A. The Economic Dilemma	6
B. Political Difficulties	7
VI. CONCLUSIONS AND PROSPECTS	9
A. Conclusions	9
B. Prospects	9
1. Toward a More Radical Dictatorship	9
2. A Civilian/Military Alliance	10
3. The Military Bows Out	10

SECRET

SECRET
No Foreign Dissem

PERU'S STALLED REVOLUTION:
IMPLICATIONS AND PROSPECTS

January 1975

PRECIS

Since coming to power six years ago, Peru's military government has attempted to carry out a sweeping revolution from above, aimed at bringing radical social and economic change to Peru through a peaceful, constructive process rather than a violent, destructive one. The magnitude of Peru's problems—geographic divisions, an antiquated political system, economic underdevelopment, and social inequality—posed a difficult, if not altogether insurmountable, challenge for the regime. The military government has decreed new laws and implemented a variety of reforms; however, the revolution has failed thus far to solve Peru's basic problems and may have added to them.

Failure to engender support from a broad spectrum of the population has accentuated the regime's concern and sensitivity about its legitimacy, and increasing opposition to the military government (as well as disunity within) now threatens its longevity as well. The military government has become more authoritarian in an effort to sustain its revolution and overcome the growing political crisis. After six years the revolution has stalled and it appears that the military's role in Peruvian politics may be in for a change. The nature and extent of change, however, depend on which of the likely options the government decides to pursue: it may become more repressive, it may enter into a co-governing alliance with civilian politicians, or it may bow out of the political picture altogether.

NOTE: The Office of Political Research (OPR) consulted other components of the CIA in the preparation of this study, and they are in general agreement with its judgments. Further comments would be welcome and may be addressed to the author: [REDACTED] code 143, ext. 5470.

25X1A9a

SECRET
No Foreign Dissem

PERU'S STALLED REVOLUTION: IMPLICATIONS AND PROSPECTS

THE DISCUSSION

I. DEFINING PERU'S REVOLUTIONARY CRISIS

Peru's military junta, which assumed control of the country in 1968, has institutionalized the concept of revolution as a function of government. In recent years other military governments in Latin America (e.g., Argentina, Bolivia, Brazil, and Panama) have referred to themselves as revolutionary. However, in terms of the sweeping social and economic changes which it envisioned, the Peruvian military's revolution from above has been perhaps the most ambitious.

In their bid to fashion nationhood from revolution, Peru's military leaders faced a difficult, if not insurmountable, challenge. Peru's inhospitable landscape has in large measure been responsible for the social, economic, and political divisions which have impeded the country's development. As one observer remarked: "Looking at the twisted, jagged mountains, the arid desolation along the coast, and the impenetrably harsh jungle one can only surmise that God must have indeed awakened angry one morning, creating both this insufferably cruel climate and the God forsaken people who live here."

Because of the hostile climate and terrain, less than 25 percent of Peru's land is arable. Much of the agricultural output is produced on subsistence farms isolated from urban areas. The bulk of the population is composed of peasants who live outside the cash economy. The life style of this large, isolated segment of the country has changed relatively little in over 300 years, and the 7-8 million Quechua-speaking Peruvian Indians scattered over the vast Andean cordillera have virtually no contact with the capital—nor indeed with the Twentieth Century. Even in the late 1960s the few larger urban centers in Peru remained rooted in the past—held there by an archaic political system and a rigidly stratified social order. Furthermore, an increasing dependence on outside commercial and financial interests threatened to undermine the country's future sovereignty as well.

Military leaders, distressed by the dilemma confronting their country, felt that they alone could implement the far-reaching program of reform and modernization needed to solve Peru's problems.¹ After six years of well intentioned effort, however, the military's "soft" revolution has stalled. In order to harden it and to implement the remainder of the reforms the military government has become increasingly more radical and authoritarian; and in turn, the people have become increasingly dissatisfied and restive. Furthermore, serious dissension within the military between moderates and radicals threatens to weaken military unity—perhaps the most vital factor in the junta's effort to effectively govern and eventually modernize Peru.

The following paragraphs will assess the armed forces' revolution in terms of the essential criteria for a successful revolution from above: 1) implementing a revolutionary program—e.g., creating the institutions and developing the power to carry out the reforms effectively—and 2) establishing political legitimacy by winning broad popular support. The paper will also explore the current political crisis in Peru and some of the options which the regime may take in response to it.

II. TRADITIONAL POLITICS AND THE SHIFT IN THE MILITARY'S IDEOLOGY

Among Peru's past assortment of civilian and military leaders have been some moderate reformists who made sporadic attempts to improve the country's social and economic institutions. More often than not, however, their attempts proved futile, quashed by the vested interests of the powerful oligarchy within Peru.

¹Aside from the ineffectual Peruvian Communist Party and a scattering of minor leftist movements, there was no political party which even had a program of revolutionary change—much less the ability to carry it out. Moreover, by the late 1960s APRA, the country's only reformist movement with widely based popular support, had adopted a largely conservative, middle of the road position.

SECRET

Prior to the 1968 coup the oligarchy consisted of a central nucleus made up of the sugar and cotton growers of the coastal plains. In addition, the oligarchy controlled the national system of credit, the major insurance companies, real estate businesses in Lima and the larger cities, and commerce. Monopolistic and speculative, the oligarchy relied heavily on favorable economic treatment by a sympathetic and responsive government.

Traditionally, the Peruvian military had served the interests of these *latifundistas*, the select group of "forty families" whose total accumulated wealth and influence constituted a veritable stranglehold on the social, economic, and political structure of the country. Throughout the nineteenth century the military drew the majority of its officers from the upper class and owed its allegiance to the ruling elites. Even by the mid-1950s, when its officers were being drawn largely from the middle class, the military remained closely associated with the oligarchic ruling groups—protecting their interests in exchange for generous military budgets.

As other avenues for technical education and economic opportunity continued to open up for the upper and middle class, the military began to draw its officers from the predominantly *mestizo* and lower middle class. As a result, in recent decades officers, regardless of rank, have been excluded from upper and upper middle class society.

In addition to the changes in the social and ethnic backgrounds of military officers, the high command also underwent a dramatic change in the quality and content of its education. In 1950 a new emphasis was introduced into Peruvian military training when liberal senior officers established the Center for Advanced Military Studies (CAEM). CAEM was, in effect, a graduate school for the four-year, university level Military Academy and offered a radical curriculum, heavy on sociology and economics, and based on the proposition that national security and socio-economic development were intricately related.

Selected senior officers from all three services attended the one-year course, which emphasized the non-military aspects of national defense: public administration, economic planning, and political studies. CAEM's "ideological pluralism" afforded the officers an infusion of Marxism and the nationalist economics of Raúl Prebisch and his colleagues in the United Nations Economic Commission for Latin

America (ECLA). Moreover, in accordance with Article 213 of the Peruvian Constitution, the CAEM taught that the military must defend national sovereignty by increasing Peru's capacity to maneuver vis-a-vis the outside world (particularly the United States) and must promote the "national well-being of all Peruvians, not just of the dominant social classes."

As a result of the CAEM training, Peruvian military officers became more aware of and increasingly disturbed by the multiplying problems and complexities confronting civilian government. Long-standing social inequities, lagging economic growth, insurgency, and chronic political instability attributed to the ineptitude of the civilian government primed the military to take decisive action in 1968.

Of equal importance, however, was the attitudinal change engendered by the military's technical education. The advanced training gave officers a feeling of self-confidence in confronting the developmental problems of their country, and it did much to remove the feeling of inferiority military officers experienced when dealing with members of the more sophisticated civilian elite. Moreover, by the 1960s many army officers, including some commanders, were men of lower or lower middle class origin who had risen from the ranks and who tended to identify with the interests of Peru's disadvantaged majority rather than the elite. The class content which was manifest in the military's educational program contributed to the armed forces' willingness to overthrow a government which neglected the interests of the masses.

III. THE 1968 MILITARY COUP

The prelude to the 1968 coup was the army's temporary overthrow of the civilian government in 1962, an election year in which Victor Raúl Haya de la Torre, founder and leader of the American Popular Revolutionary Alliance (APRA or *Aprista*) Party, appeared likely to emerge as a dominant force in the next administration. APRA, Peru's largest political party throughout much of the last 50 years,² has also been the military's archenemy since 1932, when

²APRA's original platform—status for the Indian, nationalization of land and industry, and opposition to US imperialism—gained considerable support among middle class liberals, organized labor, and intellectual circles; and the party developed into the only effective "precinct-level" political organization in Peru. Over the years, however, APRA has gravitated toward the right, aligning itself with more conservative coalition parties.

SECRET

SECRET

Aprista zealots launched a bloody attack on a military garrison in northern Peru. As a result of their deep-seated animosity toward APRA, armed forces leaders, in agreement that an *Aprista*-dominated administration must be forestalled, charged fraud and irregularities in the 1962 election procedure.

When the electoral board refused to honor the military's demand for annulment, the incumbent president was removed by a detachment of troops and a military junta was installed. True to its promise, however, the junta remained in power only one year and allowed another presidential election in 1963. By then Fernando Belaúnde Terry, the candidate more acceptable to the military (and the candidate who had courted the generals most assiduously), had managed to strengthen the position of his own political coalition and was able to garner the necessary support to win the election.

For the next five years military officers watched with growing apprehension as the civilian administration failed to act effectively in the face of Peru's mounting social and economic problems. President Belaúnde, a man of high ideals and dedicated to the service of his country, was hampered by a coalition of opposition parties which, led by the *Apristas*, used its majority in Parliament to block proposals for reform and to whittle down developmental budgets. By late 1968 even Belaúnde's own political party (*Acción Popular*) was hopelessly split into warring factions.

During this period guerrilla movements expanded and acts of urban political terrorism increased. In addition, there were seizures of land by *campesinos* who had grown impatient with empty promises of agrarian reform.³ The armed forces perceived a Peruvian society slipping rapidly toward social upheaval. Such a crisis, the generals believed, would have damaging effects both on the army as an institution and themselves as hard-pressed members of a burgeoning middle class. At the very least, they feared that the general malaise was enhancing the strength of APRA, and that Haya de la Torre, the perennial APRA candidate whom the military detested and distrusted, would win in the election scheduled for 1969.

³Although the military junta of 1962-1963 had initiated an agrarian reform program, the civilian government did little to implement it.

Although they were determined to prevent Haya de la Torre's election, military leaders felt they could hardly justify a second coup solely on the grounds of keeping APRA out of power. However, in October 1968, President Belaúnde's settlement of a long-standing dispute with the US-owned International Petroleum Company (IPC) gave the military just the sort of issue they needed to build popular support for a coup. The military, attempting to induce nationalist fervor and then exploit it, repudiated Belaúnde's settlement and demanded expropriation of the IPC holdings. The ploy produced an immediate popular response, and on October 3, 1968 troops under the command of a military junta led by General Juan Velasco Alvarado surrounded the presidential palace and arrested President Belaúnde. The new military leadership announced itself as a revolutionary coalition which would attack the old political order and the unjust economic and social structure of Peru.

IV. MILITARY'S PROGRAM FOR CHANGE

A. IMPLEMENTING THE REFORMS

Drawing on the experience of earlier military regimes in Brazil (1964) and Argentina (1966), Peruvian generals realized at the outset of their venture that in order to effect urgent and wide-ranging reforms they would have to possess not only the right ideas but the power to enforce them as well. Their task was made all the more difficult by the ambitious objectives which they outlined for their revolution from above. Envisioning nothing less than sweeping reform of the agricultural, industrial, and political institutions of the country, the regime also imagined, naively perhaps, that it would have mass support for its program.

1. Agrarian Reform

In June 1969, the junta launched an agrarian reform program. Among numerous other land transfers, this impressive reform called for expropriations of eight of the country's largest sugar plantations, which were subsequently to be turned over to their workers as cooperatives. The large sugar *haciendas* of Peru's north coast, besides being owned by prominent members of the oligarchy and by foreign interests (both targets of the regime), were strongholds of APRA-dominated workers' unions. The junta hoped the reform would develop a class of medium- and small-scale farmers who would have every reason to improve their land, and that their newly formed co-ops would, in turn, have little use for unions.

Furthermore, the junta hoped that shattering the organizational framework of APRA at such a grass-roots level, in addition to reducing the party's disruptive potential, would also co-opt rank-and-file *Apristas* into groups supporting the regime.

The initial aspect of the junta's reform—land expropriations and title redistributions—were conducted at a faster pace than any recent Latin American reform except Cuba's and perhaps Chile's under Allende. Thus far some 15 million acres have been expropriated, and the junta plans to redistribute another 12 million acres by the end of 1975. About 200,000 families have been affected by the agrarian reform—either by receiving a small piece of land or, as is more often the case, by becoming a shareholder in one of the larger cooperative endeavors. After promising land to all farmers, the government realized there was simply not enough arable land available for everyone, and has been trying instead to convince the peasants that their future lies in a variety of new cooperative arrangements.

Most of the cooperatives, however, have proven to be inefficient and difficult to manage. The *campesinos* who work these cooperative farms frequently have resorted to strikes and work stoppages to bring about better pay, improved living conditions, and other renovations which the junta guaranteed all along but frequently has been slow to provide. Much to the military's dismay, those farmers who already have benefited from the improvements have shown little affection for the regime. Furthermore, the workers are now refusing to admit new, unemployed peasants into these "nouveau riche" cooperatives, preferring instead to hire day labor at low wages. Such capitalist behavior has proven embarrassing to the junta.

Now some of the more aggressive, outspoken workers are demanding an even greater share of both profits and management. The government has been trying to give members a sense of conducting their own affairs, but it has used outside managers to ensure efficiency of operations. Escalating world food prices and Peru's own rapidly increasing population (over three percent annually) lend a new urgency to the goal of making Peru agriculturally self-sufficient—an objective which conflicts with the military government's original promise of "land for all farmers." This conflict, in turn, has led to renewed "land invasions" by disgruntled peasants. In some recent cases private estates have been taken over by

peasants, who ousted landlords and government officials alike.

Although the reform has benefited some individual *campesinos*, it has not enabled the regime to realize its more urgent needs to undermine rural workers' unions, to arrest the rapid process of urbanization, and to build a wide base of support among the peasantry. The agrarian reform has, however, generated a more complex rural society and has stimulated the growth of class conflict and open dissent.

2. Industrial Reform

One of the junta's more controversial decrees concerned the 1970 industrial reform, which was intended to improve the lot of Peru's working class. President Velasco, an ardent admirer of Tito's market socialism, personally chose to pattern Peru's economic reform measures after the Yugoslav model. According to the reform, Peru would have an economy that was neither capitalist nor socialist, but one that consisted of several specialized sectors.

The public sector aspect of the reform, in addition to setting strict limits on foreign participation in Peruvian industry, stipulated that basic industries such as petroleum, fishing, minerals, etc., would be reserved exclusively for the state. The non-reformed private sector involved small business enterprises which, for the most part, remained unaffected by the law. In the reformed private sector, business and industrial concerns of the requisite size (20 employees or more) were required to allocate to each worker a fixed percentage of the company's profits—part to be distributed in cash payments and bonuses and part to be retained as commonly owned shares in the firm. Furthermore, the workers would elect one or more representatives from their ranks who would have an active voice and a deciding vote in all aspects of management and operation.

Another facet of the economic reform, the Social Property Law was promulgated in April 1974. According to this decree, each industrial concern in the public sector "belongs" to all the workers of all the plants in the industrial sector. Profits from the entire sector are to be divided equally among the workers. The purpose of the law was twofold: first, to limit the worker's identification with the parent firm and give him a sense of solidarity with all others working in the same industry and second, to divert

workers' preoccupation with personal gain from individual company operations to the social and economic benefits which would accrue to the social property as a whole. The law also provided that public companies would get preferential treatment from the government in financing and other areas.

The regime's programs on behalf of the working man, however, have not been popular or successful. Peruvian industrial laborers are principally interested in more money and better conditions, rather than such abstract measures as sharing ownership or exercising control over management. Moreover, the majority of Peru's industrial workers are employed by small-scale businesses which lie outside the social property sector; hence most of them are not affected by, nor have gained from, the reform. Peru's middle class businessmen openly resent what they feel is the systematic dismantling of the private sector. They see little incentive to invest either their time or money when a sizeable portion of everything they earn must be relinquished to a labor force whom the owners may not dismiss.⁴

The government hoped that the various industrial reforms would gradually reduce the power of the trade unions, and eventually eliminate altogether the workers' perceived need for them. Although the regime has not tried to outlaw the unions, it has sought to undermine them, and to organize a single, pro-revolutionary (i.e., pro-government) labor confederation, the Confederation of Workers of the Peruvian Revolution (CGTP). So far, however, these efforts have failed, and Peru's labor force remains fragmented into a variety of independent and political party-affiliated unions. Anti-government sentiment, fed by a rapid rate of inflation, has led to continuing demands for higher wages, and to a growing number of industrial strikes. As a result labor remains the most intractable problem facing the regime.

3. Political Reform

One of the military government's chief aims has been to reform Peru's traditional political system, replacing domination by special interest groups with a "social democracy of full participation by all Peruvian

⁴A more recent revision of the reform law states that companies with less than 20 employees must provide the work force with 15 percent of net profits as bonuses. Unlike the larger firms, however, employees in the small businesses receive no equity in the company and have no voice in management.

citizens." Over the past six years the junta has divested the oligarchy and other special interest groups of their land and their power; but it has failed either to establish a social democracy or to engender a popular base of support.

The regime has systematically undercut many organizations politically influential in Peru before 1968, except the Church, whose leaders generally have supported most of the regime's reforms. Established political parties have been severely hampered and in some cases outlawed. Economic interest groups such as the once-powerful National Agrarian Society and National Industries Society have been abolished. The junta's campaign to weaken the labor unions has been noted above. Lima's newspapers, once independent and influential, were at first cowed into utter blandness, and then, recently, expropriated completely by the military. The junta is presently converting the newspapers into worker cooperatives. The judicial system has been reorganized along lines more responsive to government will, and private universities, until 1969 governed individually, have had their autonomy curtailed by the creation of a central university system. Autonomous peasant federations, an important means of political representation for *campesinos* in Peru, have been banned.

The military government's new political order, as seen by many Peruvians, is simply a dictatorship of a reasonably efficient (by Peruvian standards) military-technocrat coalition. Private citizens have a negligible influence on government decisions, and very few feel that the regime is responsive to their needs. Many Peruvians, and particularly those whose voices once were heard through established political channels, openly resent what they consider to be an autocratic regime which acts arbitrarily, subject to neither political nor constitutional restraint.

The government's revolutionary program has changed some of Peru's problems but it has by no means solved them. The revolution has been stringent and disruptive enough to disgruntle the masses—for one reason or another—but neither initially harsh nor repressive enough to enforce the compliance of a majority of Peruvians. President Velasco's lack of charisma and the urban population's resentment of the new military elite have widened even further the gap between the government and those governed. Moreover, the traditional antipathy between Lima and the rest of the countryside, which is the major

barrier to the development of any sense of nationhood in Peru, still persists.

Substantial and lasting benefits (if there are to be any) resulting from the reforms have not yet come to fruition. It is doubtful that the Peruvian people are willing, or can be coerced, to wait for the eventual social and economic pay-off which the regime has promised. The root cause of the revolution's failure at this juncture is the government's inability to generate wide support and—in view of the absence of that support—its failure to suppress initially the dissidence that has begun to grow. Unlike Castro's revolution—which, although brutally harsh, did produce impressive results—Velasco's often heralded "neither capitalist nor socialist" way has produced only neither/nor results. While Peru's cautious and pragmatic revolution has not ended in violent disaster as did Chile's, neither has it been sufficiently bold to achieve the solidarity and permanence of the Cuban or Mexican revolutions. Indeed, it may be too late for it to do so.

B. NEW ROLE IN FOREIGN AFFAIRS

Paralleling the military government's efforts to improve the distribution of wealth and opportunity within Peru has been the junta's resolve to see Peru less subject to foreign influence, and freer to make its own decisions. The result has been the formulation of a nonaligned foreign policy, with President Velasco seeking to achieve a leadership role for himself and for his country in the rest of Latin America. Some of the more important foreign affairs issues include the territorial seas-fisheries dispute and Peru's economic, political, and military overtures to the Soviet Union.

Although the regime has cooperated closely with the US narcotics interdiction program and generally has maintained a receptive attitude toward the US diplomatic mission, the military government frequently has been at odds with or directly hostile toward the US. In the past US fishing boats have been seized and their crews fined for allegedly violating Peru's territorial waters. Recently Peru's foreign minister alluded to the possibility of more fishing boat seizures and, referring to the US-owned Marcona Mining Corporation, mentioned possible new investment conflicts as well. Citing a profound "psychology of suspicion" regarding US intentions toward the government, the junta recently expelled the Peace Corps as part of a declared campaign to undermine US "intelligence activities" in Peru.

Peru has supported Panama's side of the Canal dispute and has opened diplomatic relations with the Soviet Union, Communist China, and Cuba. The latter two actions won Velasco's regime new credit with Peruvian Communists, a weak and fractionalized party, plus the grudging approval of ultra-leftists. Peru also continues to cultivate support of other Latin American countries on important disputes with the US, such as the 200-mile territorial sea boundary and restructuring of the Organization of American States. At the recent Quito conference, Peru was among those states which voted to remove OAS sanctions against Cuba.

In addition, Peru's relations with the Soviet Union have expanded. The USSR's initial role in Peru was a low-key supplier of economic aid for development schemes, such as constructing the Paita fishing port complex and the Olmos irrigation works. During the first years (1968-72) of the Velasco regime the USSR provided only \$28 million in economic credits while Eastern Europe supplied \$173 million. Since the fall of the Allende regime in 1973, however, the Soviet Union, probably attempting to compensate for its lost influence in Chile, has given greater attention to its relations with Peru, particularly in the area of military assistance.

The Peruvian response has been mixed. The military government is attracted by Moscow's offers of military hardware at bargain prices, and thus far has purchased an estimated 150 Soviet tanks. There have been a number of problems, however—particularly with spare parts, training manuals, and mechanical failures—which have irritated the Peruvians. Although the government's receptivity to Soviet overtures is an easy way to show its independence of US influence, Velasco and his advisors are clearly wary of becoming entrapped by Cuban-like dependence on the USSR. Despite continuing friction with the US over issues ranging from the Braniff Airlines dispute to the recent US Trade Reform Bill, the government recognizes the advantages to be gained from improved relations with the US—particularly the chance to regain access to US aid, investment, and technology, and to provide a restraint against potential pressures from Moscow for a more binding relationship.

V. CURRENT PROBLEMS

A. THE ECONOMIC DILEMMA

As the Peruvian revolution borrowed reform measures from the Yugoslavs, Cubans, and others, so

did it incorporate international business guidelines from the Andean Pact and adopt the themes of nationalism and anti-imperialism already prevalent throughout Latin America. But Peru's economic policies toward the US were harsher and more restrictive than those of most other Latin American countries. The subsequent expropriations of foreign-owned (particularly US) properties in Peru under the banner of anti-imperialism frightened away foreign capital and exacerbated the country's chronic economic problems.

By 1971 the continuing absence of new private foreign investment and the sharp reduction of US credits had resulted in a contraction in Peru's economy. Real growth dropped and payments and budget difficulties, which had been serious problems during Belaúnde's administration, re-emerged. A drop in world prices of minerals and fishmeal contributed to lower export earnings. Growing imports, coupled with rising debt service payments, produced a substantial payments deficit. Domestically, a large budget deficit emerged as the continued rise in government expenditures was not matched by higher tax revenues. Food shortages, rising prices, unemployment, labor troubles, allegations of corruption, and public resentment of the high pay and privileges for the military "new class" further aggravated the economic crisis.

As economic conditions continued to deteriorate in 1972, the government was forced to soften its nationalist stance and ease its restrictions on foreign capital. During 1972-73 some foreign technicians and investors began to return to Peru, primarily to search for oil. Their discoveries of new and sizeable petroleum reserves in Peru's jungle afforded the military government what it felt was the most promising way to strengthen the nation's flaccid economy. Unable to raise the necessary capital domestically, the government made new overtures and offered attractive contracts to US and other foreign drilling firms.

In 1974 the government negotiated a \$150 million settlement with the US on outstanding investment disputes. Although the IPC case itself, which the junta contends has always been a separate, special issue, remains legally unsettled,⁵ the military government

⁵Government leaders in the US and Peru agree that the IPC case has been settled—if only tacitly. IPC shareholders, however, maintain the issue is far from closed.

recognized that an agreement with the US on expropriated property not only would help Peru's faltering economy, but would improve relations with important foreign nations. It also realized that the appearance of rapprochement with the US could add a semblance of responsibility and permanence to the military's revolution.

More recently, the military government has been taxed with the additional problems facing all less developed countries, particularly during the present world economic crisis. Peru continues to have a high rate of debt service, and its payments position has worsened due to increased petroleum and food prices. The resulting foreign exchange shortage has led to restrictions, and in some instances complete curtailment, of imports of parts and materials for Peru's industrial sector, a situation which has already forced some enterprises to close their doors. Moreover, inflation, after reaching a high of 14 percent in 1973, climbed to an annual rate of 22 percent during the first quarter of 1974, and current indications are that the inflationary spiral will continue through 1975 as well.

There are a few hopeful developments: the vital fishing industry continues to revive, and the recent oil discovery in the Amazon basin, if it proves as rich as expected, will go a long way toward making Peru self-sufficient in oil during the 1980s. But in the main Peru's economic prospects are bleak—particularly over the next year. The government's economic development plans remain hostage to global demand for raw materials: the deepening recession in the world's developed countries is depressing the prices of minerals on which Peru's export earnings are heavily dependent. In turn deteriorating economic conditions in Peru probably will further alienate the people from the regime and may, at the very least, lead to intensified demonstrations against the government . . . perhaps as severe as those which occurred in Chile under Allende.

B. POLITICAL DIFFICULTIES

So far the junta has successfully stifled active opposition by selective deportations, and by arresting certain troublesome labor and political activists. The recent spate of violent demonstrations, however, points to a more turbulent political future for the junta. Protests over rising prices, new wage demands, and other disturbances have been increasing in Lima. Workers and slum dwellers have been joined in protest

SECRET

by women marching in the streets with empty pots—a scene reminiscent of Chile prior to Allende's downfall.

The latest, and most ominous in the chain of demonstrations, was sparked by the junta's expropriation of the Peruvian press—a move decried by some members of the Peruvian Federation of Newsmen (FPP) as “blatant Marxism.” Led by students and supporters of the former civilian government, the anti-government demonstrations were unique because they included for the first time members of the middle class. After arresting some 500 persons (all of whom were quickly released), the military government announced that all public demonstrations would be prohibited for an indefinite period.

The government recognizes that dissident groups will find it difficult to mount a serious threat against the Velasco regime without substantial backing from anti-government labor groups and APRA—the one political party which has sufficiently broad popular support to challenge the government. In anticipation of just such a challenge, high-level government officials have been meeting recently with APRA representatives to discuss possible areas of cooperation.

Real collaboration between the two faces serious obstacles, however. The military is concerned that the conservative APRA would attempt to blunt the revolution. Moreover, the old animosities between the two still exist. Velasco—while recognizing that APRA's entry into the government would help provide the regime with a much-needed base of popular support—has grave reservations about sharing power with a party which has long been anti-militarist and which is still heavily influenced by Haya de la Torre. There are even greater reservations on the part of APRA. Haya de la Torre and other APRA conservatives oppose the regime's restrictions on political activity and its failure to hold free elections; but they are generally sympathetic to its goals for Peru, and could probably reach an agreement among themselves for compromise with the junta. But the young radicals of APRA—the Villanueva group—are a different matter. These activists, who are rapidly replacing the old guard in the APRA leadership, are pledged to topple the military from power, rather than share power with it.

In addition to problems with its political opponents, the junta is faced with increasing dissatisfaction among moderate military officers who feel the

Peruvian revolution has already become too authoritarian. Freedom of the press, in particular, has been a divisive issue within the regime. Vice Admiral Vargas, the moderate ex-Naval Minister of the junta, was the most powerful and outspoken advocate of an independent press. However, President Velasco maneuvered Vargas into an untenable political position and ultimately forced him to retire. This led to new divisions between the Peruvian army and navy, and further widened the gap between moderates and radicals within the army officer corps.

Recently military leaders have become even more sharply divided over the issue of forced retirements and Velasco's attempts to revamp the armed forces seniority system. In order to insure the continuance of the revolution Velasco attempted to force politically significant moderates into early retirement, thereby paving the way to name General Jose Graham as his successor. Graham, a radical who likely would steer the revolution along an even more authoritarian and repressive course, faces a challenge for power by General Morales Bermudez, a moderate who is slated (according to the present retirement system) to be next in line for the presidency. For the moment Bermudez' position appears secure, but jockeying for power will continue and the crisis surrounding military leadership also will increase.

Tensions between Velasco and the navy reached a critical point in 1974 following the press expropriations and the President's Independence Day speech, in which he outlined a program calling for increased state control over the economy. It is likely that some navy officers, perhaps soliciting support from equally disgruntled moderates in the army, may have seriously considered an attempt to topple Velasco. The navy is too weak, however, to carry out a successful coup without substantial support from the army. Moreover, as a counter-measure Velasco has been strategically placing loyal officers in command of the army components required to protect him from a coup. For the moment at least, he appears to be firmly in control of the powerful Peruvian armored division, the deciding factor in any contest for political power.

Compounding the junta's domestic problems, Peru is viewed by some of its neighbors as a radical, Marxist state and to that extent is regarded with suspicion in the Latin American community. The junta is troubled, moreover, by latent border disputes with Ecuador and expansionist-minded Brazil. In addition, there is a

SECRET

potential for actual armed conflict between Peru and Chile within the next several years.⁹

VI. CONCLUSIONS AND PROSPECTS

A. CONCLUSIONS

For the past six years the military government, spearheading its own revolution from above, has attempted to unify and modernize its diverse and problem-plagued country, and has sought to redistribute economic power in favor of the masses. For the most part the military's revolution has been both real and, in some respects, successful.

Peru's military government has implemented one of the most extensive agricultural reforms in the history of Latin America—with far less disruption than the agrarian reform of the Chilean revolution under Allende. It has initiated programs that will *eventually* give industrial workers a 50 percent share in their companies' profits and a proportional voice in managing them. Furthermore, it has greatly expanded the role of the state in industry and has gained control of large segments of the Peruvian economy that were previously in the hands of foreign (mainly US) companies. While there has been little direct social legislation *per se*, the military contends that, in the revolution's broader political and economic context, social and cultural changes will result which in turn will *eventually* fashion a "new society of freedom and justice for all Peruvians."

However, of the two criteria for measuring the effectiveness of the government's revolution from above—1) implementing the reforms and 2) engendering mass support—the military has achieved success only in the first. Throughout the country skepticism persists toward the revolution in general and the military government in particular. Failure to win respect or gain support from the populace has been the revolution's greatest shortcoming and eventually may prove to be its undoing. Thus far the military's program of reform has alienated all factions: the urban and rural poor, because their expectations have outraced the accomplishments of the

revolutionary government; the middle class, because it holds the junta responsible for increasing inflation and higher taxes; the private business sector, because the junta's escalating stress on social property and other industrial reforms appear to signal the demise of free enterprise in Peru; and the oligarchy, because it has lost its dominance in economic and political matters.

Since assuming power the military government has been firmly in control of the country, primarily because the populace has been relatively passive and its opponents have lacked effective leadership. Furthermore, the junta has vowed that it will remain in power until its modernization program is successful and its revolutionary reforms are irreversible. The military government is acutely aware, however, that its ability to remain in control is seriously threatened by an increasingly dissatisfied and restive citizenry. Growing indigenous opposition and other mounting pressures are likely to alter significantly the military's future role in Peruvian politics. Indeed, with the exception of Mexico, Cuba, and possibly Brazil, most revolutions in Latin America have had a relatively short life span, soon reaching a point where they either failed completely or took a radically different course under new leadership. Peru's military-led revolution may now be approaching the outer limits of its tenure.

B. PROSPECTS

For the short term at least, the revolution is most likely just to muddle along as is—trying to straighten out internal problems in the armed forces while attempting to counteract the growing opposition to military rule. If factionalism within the military—as well as popular opposition to it—increases, however, the military government will be forced to modify its current political posture. At present there appear to be several possible directions which events in Peru might take.

1. Toward a More Radical Dictatorship

In view of the growing restiveness across a broad spectrum of Peru's people, it is possible that Velasco may accelerate his efforts to transform the heretofore soft revolution into a more authoritarian one. It may be too late, however, for such a shift in tactics. The more repressive the military government, the more determined the opposition to it is likely to become.

Because the Peruvian revolution was neither initially violent nor accompanied by severe suppression of dissenting groups, growing

⁹Some of Peru's leaders have expressed a determination to regain both land and prestige before the centenary of Peru's humiliating defeat by Chilean forces during the War of the Pacific (1879-1883). For a detailed account see the July 1974 Interagency Memorandum entitled "Peru and Chile: Arms Acquisition and the Potential for Conflict" and subsequent revisions and/or addenda.

dissatisfaction resulted first in organized protest, and later, in urban terrorism and assassination attempts. If the regime now resorts to harsh, repressive tactics to control an already maturing—but as yet unorganized—opposition movement, the outcome might be a mutually destructive spiral of violence. At the very least, the military leadership would irrevocably alienate both the populace and the Church, destroying in the process any remaining vestige of political legitimacy.

2. A Civilian/Military Alliance

The military government will probably decide—particularly if a moderate succeeds Velasco to the Presidency on the latter's death or retirement—that the armed forces no longer can rule the country by itself; or that it could do so only by resorting to an unacceptable level of repression. In order to insure the survival of their revolution, even temporarily, military leaders will have to work out some arrangement to share power with civilians. But this is not likely to come about easily or soon. The military might concede some of its power but it would be reluctant to concede it all. The military would not agree to any compromise which might render the armed forces politically impotent, nor would it permit its professional status or prestige to be diminished. Moreover, within APRA, the only political party sufficiently organized to co-govern the country, serious factional differences would have to be resolved, and a consensus reached on the conditions under which it would agree to enter a governing alliance with the military. At a minimum, the junta would have to agree to allow at least limited free elections.

The military's greatest concern in allowing free elections would be that the revolution might be slowed, or even reversed. APRA and other civilian politicians, alert to the attitudes of their constituents, would probably seek to modify or eliminate unpopular military government programs. Under such circumstances any civilian-military alliance would be a fragile union at best.

3. The Military Bows Out

Seeking to avoid further erosion of the armed forces' authority in the face of growing civil unrest or an

embarrassing defeat at the polls, the military might bow out of the political picture. Should such a scenario develop, however, it would likely be short-lived.

Although the military could retreat to its barracks and leave a civilian administration to try and solve Peru's problems, it must be remembered that it was the magnitude of Peru's problems, as well as the military's belief that it alone could solve them, which brought the generals out of the barracks and into the presidential palace. While some of the officers might be relieved at returning to an exclusively military role, others would probably be looking for a second chance to carry out the revolution they had initiated. Few, if any, would be willing to accept a return to pre-1968 Peru.

* * *

In the final analysis, the revolution from above may never have had much of a chance for success. Certainly in the brief space of six years neither the military government nor any other could have been expected to overcome problems which have been accumulating for generations. Cultural and language differences perpetuated by geographic isolation; lack of an adequate infrastructure; a lop-sided and undeveloped economy; and a score of complex social factors constituted virtually insurmountable obstacles. Moreover, the military regime created a number of new problems by forcing Peru into institutional changes for which it was unprepared and totally unsuited.

Yet in some ways the revolution has had a profound and probably a lasting impact on Peru. Nationalization of industry and the pursuit of an independent national economy—two major programs of the junta—are not likely to be undone by any probable successor government, military or civilian. For the moment, however, the revolution has stalled; and whatever political developments occur, it is unlikely to regain its past momentum. Indeed, for better or for worse, Peru's revolution from above seems to have run its course.